MDS Health Group Limited Annual Report 1977

MDS Health Group Limited

Dedicated to helping the health professions
care for people

1977 Financial Highlights

	1977	1976	Percentage Change
Revenues	$22,268,000	$21,534,000	+ 3.4%
Depreciation	467,000	395,000	+18.2%
Income taxes	978,000	936,000	+ 4.5%
Net income (before extraordinary items)	1,103,000	1,042,000	+ 5.9%
Earnings per common share (before extraordinary items)	$ .65	$ .60	+ 8.3%
Total assets employed	13,632,000	10,576,000	+28.9%
Shareholders' equity	6,374,000	5,443,000	+17.1%
Dividends per common share	$ .10	$ .10	—

Report to the Shareholders

In fiscal 1977 the financial performance of your company was slightly better than in the previous fiscal year. Gross revenues for the year of $22,268,000 were 3% more than in fiscal 1976 and net after-tax income before extraordinary item increased by 6% to $1,103,000. Earnings per common share were 65¢ compared with 60¢. Significantly, the year ended on a more positive note than it began with improved earnings in the second half of the year. While the performance of all divisions improved in the second half of the year the increase was primarily the result of changes in the company's principal business, the operation of clinical laboratories in the Province of Ontario. In May, 1977 the Ontario laboratory fee schedule was increased by 6.5%, the last previous increase being in May, 1975. In addition, laboratory usage increased somewhat over the first half of the year, although still under the levels of previous years.

In 1977, the Health Care Services Division revenues continued to increase and insurance paramedical services were expanded to two other provinces. Results in the "Occupational Health" area were affected by the general business downturn and performance in the industrial clinics was below expectations.

MDS Professional Services Limited had a very good year, completing development management contracts on two medical buildings in Etobicoke and Chatham, and starting the construction phase on the development management contract for a large professional centre in the west end of Toronto.

The laboratory supplies division performance was helped by the addition of several new product lines and the manufacturing start-up of some laboratory supplies.

During 1977, the company continued its active programs to seek opportunities for diversification and expansion. Subsequent to the end of the fiscal year, arrangements were finalized whereby the company acquired 50% of Biozyme Laboratories, Inc. of Olean, New York. Biozyme operates a large hospital reference laboratory business in Western New York State and Pennsylvania and as part of the MDS involvement acquired the largest physician-oriented private laboratory in Rochester, New York. Existing laboratory operations were expanded by the net acquisition of five new laboratories in Ontario.

Part of the expansion program was the arrangement of additional long term financing in April. The financing included the private placement of a $2,000,000 fifteen-year debenture and increasing the bank term financing by $250,000 to $1,500,000 while extending repayment terms to seven years. These funds have been arranged to finance expansion in Ontario and the United States.

In September the Board of Directors approved the establishment of an employees' Deferred Profit Sharing Plan, whereby a portion of the pre-tax profits of the company, 10% ($231,645) for the fiscal year 1977, is allocated to the Plan. All full-time employees are eligible to participate in the Plan and it is the intention to use the funds initially to purchase common shares of MDS. This will afford an opportunity for employees to participate in the ownership of the company and benefit directly from its success.

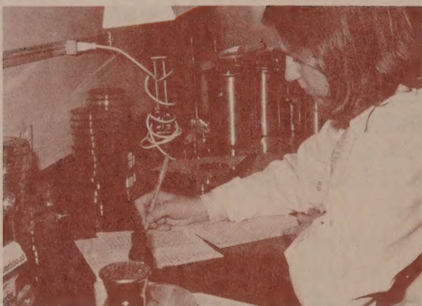
In March, 1977 the Board of Directors was increased from nine to ten and Mr. George Mann was elected to the Board. Mr. Mann is President and controlling shareholder of Unicorp Financial Corporation which has a significant holding in MDS.

I would particularly like to thank the employees and consultants associated with MDS for their support over the past difficult year. The fact that the company is able to report satisfactory results for the period is a direct outcome of their efforts on its behalf.

W. G. Lewitt
President

January 27, 1978

Laboratory Services



MDS owns and operates Canada's largest private laboratory network. This network, with 100 locations in Ontario and Quebec, provides services to approximately 100,000 patients every month.

MDS has always emphasized the role of the local laboratory physician in providing consultative services to the practitioner in each community. The laboratory division operates under the guidance of a Medical Advisory Board and its sub-committees in each discipline of laboratory medicine. The Board directs all matters pertaining to quality control, procedures and ethics of practice.

MDS laboratories offer one of the broadest ranges of laboratory tests available in Canada and are abreast of all current developments related to new diagnostic procedures. A continuing effort is made to improve the scope and usefulness of test procedures and systems.

Of prime importance to the practitioner is the speed and accuracy of results. MDS operates an extensive communications network which includes a courier service covering most areas of the Province of Ontario. This network is of particular importance to patients and physicians in the more remote regions. Most test results are generated in 24 hours and emergency or stat tests are reported within one hour.

For the added convenience of our patients, laboratory hours are established to permit visitation before or after work, or on weekends, and to conform to the hours of practice of the referring physician.

We believe that our dedication—to the basic principle of ensuring the best quality, care and service to physician and patient—has been a significant factor in our success in the past, and will continue to be so in the future.

In 1977 plans were formulated to expand operations into the United States and in December, 1977 a joint venture agreement was signed with Biozyme Laboratories, Inc., a full service medical reference laboratory active in both New York State and Pennsylvania. A Biozyme laboratory is pictured at left.

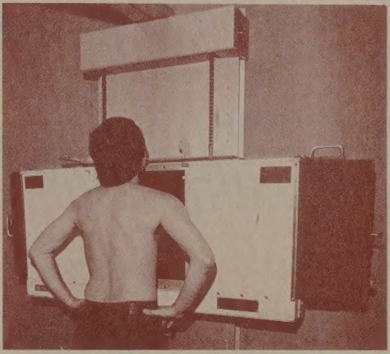
Health Care Services

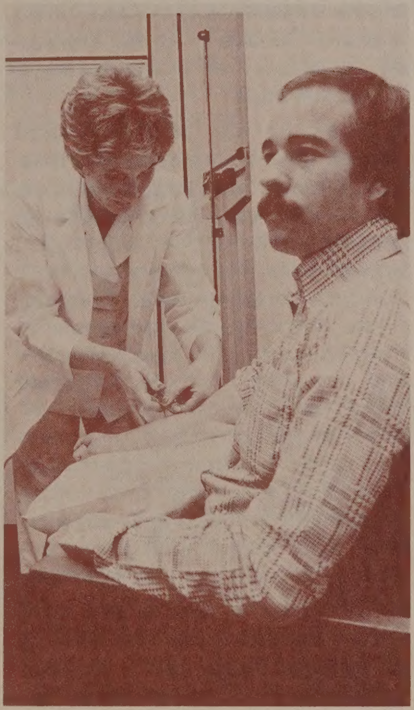
MDS Health Care Services provides a wide range of testing and treatment services for Canadian business and industry.

Through an Executive Health Examination Program, executives from 200 companies attend our Montreal and Toronto clinics annually for comprehensive medical evaluations. In addition, in order to assist companies in the hiring of personnel, pre-employment medical examination services are available.

This division also assists the life insurance industry by conducting paramedical examinations for policy applicants. In 1977 these services were expanded into Manitoba and Alberta and shortly, the services should be available across Canada.

The MDS-operated Evans and Scarborough Medical Industrial Clinics provide both initial and follow-up treatment of injuries sustained in industrial accidents. These clinics also serve as reference centres for industry for the identification and definition of occupational health problems.





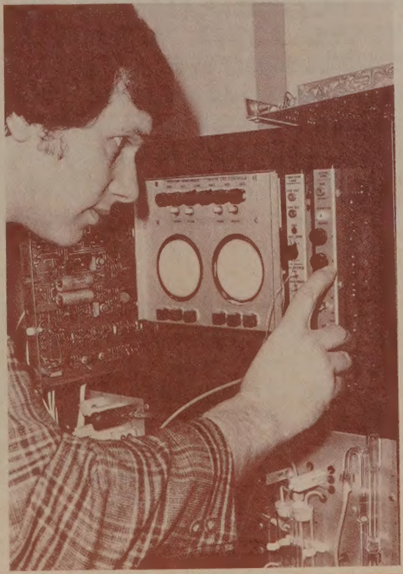
Diagnostic Laboratory Supplies

The manufacture, purchase and distribution of products for MDS Laboratories as well as for external sale is carried out in this division under the names of OCW Diagnostics and OCW Laboratory Products.

The division is also responsible for maintaining a program of preventive maintenance as well as a full service program for equipment in all MDS locations. This service has been extended to include the automated haematology equipment in many Ontario hospitals.

Within the division a major emphasis is placed on the manufacture of specialty products. Last year this was directed towards reagents for automated haematology equipment. This year the division's activity was expanded to include the manufacture of plated media for bacteriologic testing. The manufacture of this item has resulted in significant savings to the company as well as created the opportunity for significant external sales.

In Montreal, Otto C. Watzka & Co. Ltd., a wholly-owned subsidiary of MDS Health Group Limited, sells equipment, consumables and diagnostics to hospitals, universities and educational institutions. The division's policy continues to be directed towards the handling of private branded OCW products as well as exclusive lines.



Professional Services

MDS Professional Services Limited is one of Canada's leading specialist developers of medical-dental office buildings.

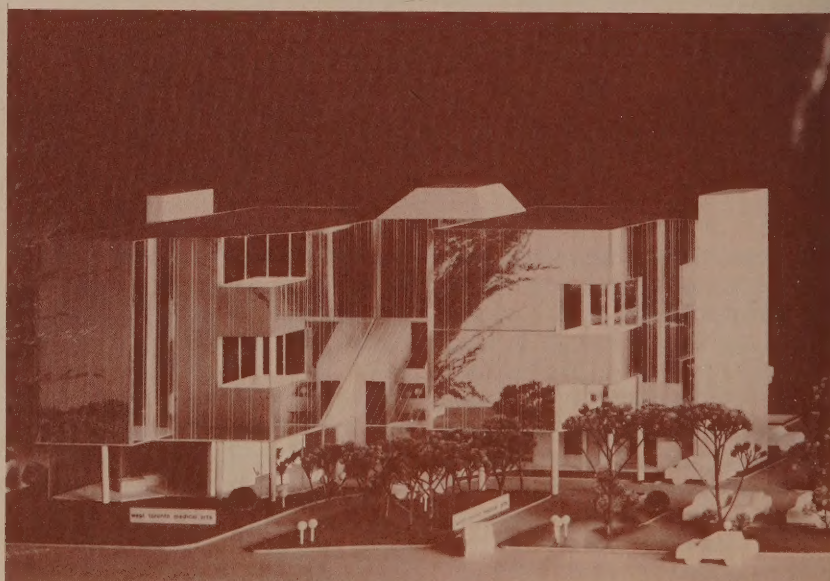
MDS works with physicians and dentists to develop comprehensive health care facilities which are owned 100% by the practitioner-tenants. The services which are provided encompass a project from concept to completion. They include feasibility studies involving market research, site selection and economic analysis; corporate organization and syndication; interim construction and long term mortgage financing; supervision of building design and construction; co-ordination of leasing, space planning, suite design and construction and building management.

In addition, seminars are conducted for physicians and dentists on medical-dental office building development, corporate organization and suite design.

The company's educational brochure on health facilities development has had wide circulation to the medical profession.

Since its incorporation in 1972, MDS Professional Services Limited has completed, or has under construction, projects in excess of 350,000 square feet.

Our largest medical-dental office project (as shown) is currently under construction in Toronto and is scheduled for occupancy in July, 1978.



Quality

In order that there be an ongoing assurance of the highest professional and technical quality, MDS operates under the guidance of a Medical Advisory Board. This Board, through several working sub-committees which meet on a monthly basis, monitors standards closely and regularly and recommends any new procedures or changes it considers desirable.

In addition, each laboratory and patient service centre is supervised by a Medical Director who is also available to local medical practitioners on a consultative basis.

In common with all other licensed laboratories we also participate in the Ontario Government's Laboratory Proficiency Testing Program (LPTP).

Quality of service, of standards and procedures is maintained at a universally high level throughout every facet of MDS' operations.

Care

Our patient service centres, geared specifically to the requirements of both physicians and their patients, are staffed by fully qualified and courteous personnel.

Vital services to non-ambulatory patients—such as the collection of specimens and the administration of electrocardiograms are carried out by a highly trained mobile nursing staff in patients' homes, senior citizens' residences and institutions.

MDS industrial medical clinics provide treatment and follow-up care for employees injured in industrial accidents, as well as counselling for employers on occupational health hazards.

We strive constantly to provide hospitals, physicians and their patients with professional service that is second to none in this country.

Service

MDS laboratories provide physicians with one of the widest ranges of tests presently available in Canada. We estimate some 5,000 physicians regularly refer their patients to our laboratories. In addition, some 250 hospitals and institutions refer work to us. The MDS Ontario-wide courier service picks up specimens daily in rural areas and in remote communities and speeds test results to referring physicians, usually within 24 hours.

In Toronto there is based a large reference laboratory which provides expert medical assistance and consultation services on specialized procedures to all MDS regional laboratories and to hospital and independent commercial laboratories throughout Eastern Canada. Also at this site new testing techniques are developed and undergo evaluation.

"Topics in Laboratory Medicine", a continuing series of articles written by MDS consultants, is distributed on request to physicians across Canada.

MDS Health Care Services provides pre-employment medical examinations and executive health screening services for many Canadian companies. We also provide health examination services for policy applicants of more than 60 Canadian life insurance companies.

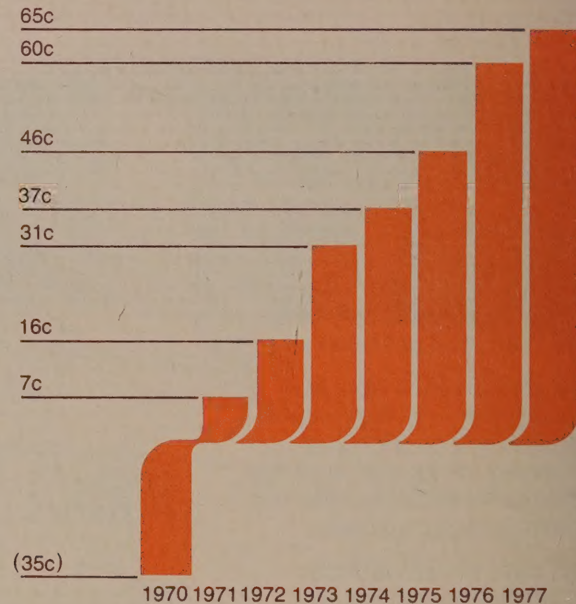
In our laboratory supplies division we supply the health care professions with specialized media and reagents as well as providing maintenance and repair services for automated haematology equipment in hospitals.

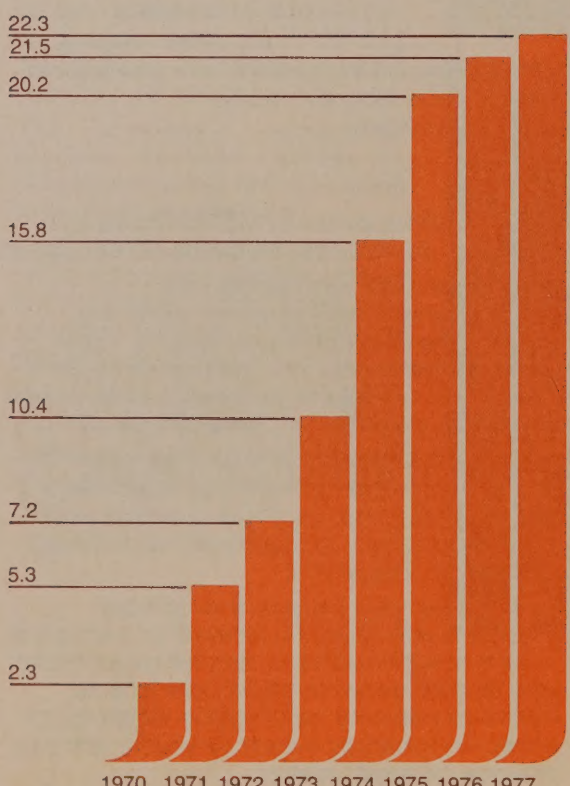
MDS Professional Services assists many physicians and dentists to locate their practices in custom designed suites in comprehensive health care facilities owned by practitioner-tenants. Patient convenience and physician efficiency are markedly enchanced in these functional "one stop" professional health centres.

Eight Years of Growth

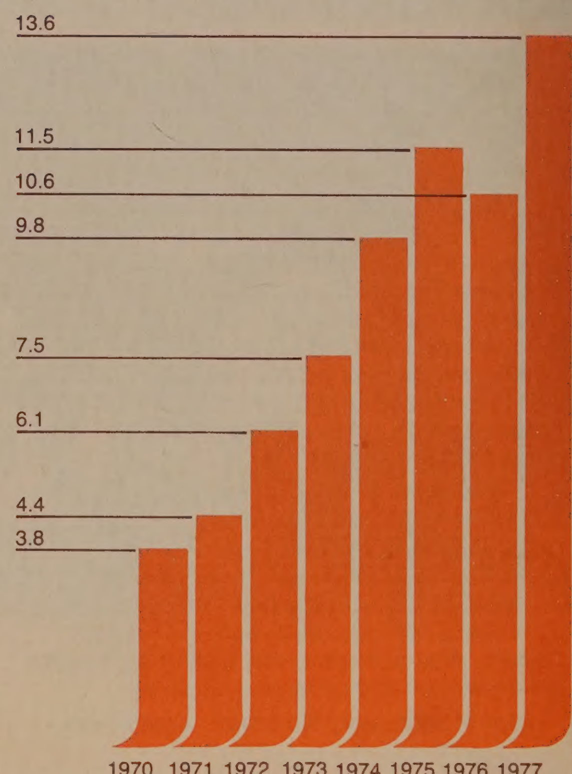
Earnings per Common Share†

† Before extraordinary items





Revenues in Millions



Total Assets in Millions

MDS Health Group Limited

(Incorporated under the Laws of Ontario)

Consolidated Statement of Income

YEAR ENDED OCTOBER 31, 1977 (with comparative figures for 1976)

	1977	1976
Gross revenues	**$22,268,424**	$21,533,715
Less discounts	**1,774,374**	1,663,687
Net revenues	**20,494,050**	19,870,028
Operating costs before the following:	**17,699,463**	17,139,913
Depreciation and amortization	**466,738**	395,335
Interest expense		
—long term debt	**328,673**	229,486
—other (net)	**61,319**	185,896
Gain on sale of assets (note 6)	**(142,977)**	
	18,413,216	17,950,630
Income before income taxes, minority interest and extraordinary items	**2,080,834**	1,919,398
Provision for income taxes	**978,000**	936,000
Income before minority interest and extraordinary items	**1,102,834**	983,398
Minority interest share of loss		58,227
Net income before extraordinary items	**1,102,834**	1,041,625
Extraordinary items		37,950
Net income for the year	**$1,102,834**	$1,079,575
Earnings per common share:		
Before extraordinary items	**$0.65**	$0.60
For the year	**$0.65**	$0.62

Consolidated Statement of Retained Earnings

YEAR ENDED OCTOBER 31, 1977 (with comparative figures for 1976)

	1977	1976
Retained earnings, beginning of year	**$2,346,683**	$1,694,759
Net income for the year	**1,102,834**	1,079,575
Excess of cost over paid-up capital of common shares purchased for cancellation		(243,555)
Dividends paid during the year:		
Preference shares ($0.40 per share)	**(16,818)**	(16,818)
Common shares ($0.10 per share) (note 5)	**(155,950)**	(167,278)
Retained earnings, end of year	**$3,276,749**	$2,346,683

(See accompanying notes)

Consolidated Balance Sheet

OCTOBER 31, 1977 (with comparative figures as at October 31, 1976)

Assets

	1977	1976
Current assets:		
Cash and short term investments	**$ 1,107,171**	
Accounts receivable (note 2)	**4,167,339**	$ 3,151,785
Inventory, at lower of cost and net realizable value	**820,906**	786,359
Investments in shares of and advances to other companies, at cost less allowance for doubtful realization	**228,597**	162,723
Future income tax reductions	**147,209**	222,691
Prepaid expenses	**273,346**	212,892
	6,744,568	4,536,450
Long term investments, at cost less allowance for doubtful realization:		
Debenture, due November 17, 1980	**94,386**	124,828
Investment in shares of and advances to other companies	**141,481**	124,292
	235,867	249,120
Fixed assets (notes 2 and 3)	**2,053,485**	2,144,315
Non-current assets (note 4)	**582,372**	56,633
Excess of amounts paid over the fair value of the net tangible assets acquired on the purchases of shares and assets, less amortization and write off	**4,015,931**	3,589,586
	$13,632,223	$10,576,104

On behalf of the Board:

W. G. Lewitt Director

R. H. Yamada Director

(See accompanying notes)

Liabilities and Shareholders' Equity

	1977	1976
Current liabilities:		
Bank indebtedness (note 2)	**$ 1,083,452**	$ 661,109
Accounts payable and accrued liabilities	**1,502,065**	1,090,269
Current portion of long term debt (note 2)	**406,842**	675,000
Income and other taxes payable	**306,910**	795,531
Current deferred income taxes	**194,000**	229,000
	3,493,269	3,450,909
Long term debt (note 2)	**3,756,208**	1,659,565
Deferred income taxes	**8,800**	23,000
Shareholders' equity:		
Capital stock (note 5) —		
Authorized:		
387,000 8% convertible, cumulative preference shares redeemable at a par value of $5 per share		
3,267,781 common shares without par value		
Issued:		
42,046 preference shares	**210,230**	210,230
1,673,783 common shares (1,672,783 in 1976)	**2,886,967**	2,885,717
Retained earnings	**3,276,749**	2,346,683
	6,373,946	5,442,630
	$13,632,223	$10,576,104

Auditors Report

To the Shareholders of MDS Health Group Limited:

We have examined the consolidated balance sheet of MDS Health Group Limited as at October 31, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 6, 1978.

Clarkson, Gordon & Co.

Chartered Accountants

Consolidated Statement of Changes in Financial Position

YEAR ENDED OCTOBER 31, 1977 (with comparative figures for 1976)

	1977	1976
Funds were provided from:		
Operations—		
Income before minority interest and extraordinary items	$1,102,834	$ 983,398
Add charges (deduct credits) not requiring an outlay (receipt) of working capital:		
Depreciation and amortization	466,738	395,335
Deferred income taxes	(14,200)	11,000
Provision for doubtful realization of long term investments	25,000	
Gain on sale of non-current laboratory assets (note 6)	(202,325)	
Funds provided from operations	1,378,047	1,389,733
Long term debt	2,540,000	600,000
Issue of common shares	1,250	4,062
Net proceeds from settlement of AGA lawsuit		155,479
Net proceeds on sale of pharmaceutical division		(62,680)
Reduction of debenture receivable	5,442	20,000
Total source of funds	3,924,739	2,106,594
Funds were applied to:		
Investment in subsidiaries less working capital and fixed assets acquired	226,775	141,968
Less portion of purchase price satisfied with the issue of long term debt		(150,000)
	226,775	(8,032)
Reduce long term debt over one year	443,357	791,935
Purchase fixed assets	386,223	480,272
Pay dividends on common shares	155,950	167,278
Pay dividends on preference shares	16,818	16,818
Loan to deferred profit sharing plan (note 7)	357,942	
Debt issue expense	61,779	
Increase other assets	110,137	17,885
Purchase shares for cancellation		1,072,972
Provide for possible loss on current portion of investments of a subsidiary company		85,000
Total application of funds	1,758,981	2,624,128
Increase (decrease) in working capital	2,165,758	(517,534)
Working capital, beginning of year	1,085,541	1,603,075
Working capital, end of year	$3,251,299	$1,085,541
Represented by:		
Current assets	$6,744,568	$4,536,450
Current liabilities	3,493,269	3,450,909
	$3,251,299	$1,085,541

(See accompanying notes)

Notes to Consolidated Financial Statements

OCTOBER 31, 1977

1. **Accounting policies**

The following is a summary of certain significant accounting policies followed in the preparation of the consolidated financial statements. The policies conform to generally accepted accounting principles and have been applied consistently.

(a) Basis of consolidation

The accounts of all subsidiaries are consolidated on a purchase basis from the date of acquisition.

(b) Fixed assets

Depreciation on major equipment is provided on a five-year straight-line basis and on other equipment, furniture and fixtures on a ten-year straight-line basis. Leasehold improvements are amortized over the lesser of ten years or the length of the lease plus one renewal option.

(c) Development and start up costs

Costs associated with development of new products and locations and with the acquisition of new business are expensed as incurred.

(d) Amortization of intangibles

For acquisitions after March 31, 1974, the excess of amounts paid over the fair value of the net tangible assets acquired on the purchase of shares and assets is capitalized and is being amortized over forty years. For acquisitions prior to April 1, 1974 the excess has been capitalized and no amounts are being amortized.

(e) Developments

50% of project development fees are recognized in gross revenue at the time a firm financial commitment has been obtained (the point at which a significant portion of the total costs related to the project have been incurred) and the remaining 50% over the construction period. Contract revenue and profits on building projects are recognized using the percentage of completion method. Full recognition is made for losses when they become known.

It is not the company's intention to make long term investments in building projects. The company's investments are classified as non-current assets, except where there is a reasonable expectation of realization within the next fiscal year.

(f) Income taxes

The company follows the deferral method of income tax allocation.

Deferred income taxes result from claiming deductions for tax purposes (principally depreciation and amortization) in excess of amounts charged in the accounts. Where the company is virtually certain of realizing a future income tax reduction from a loss carry forward for tax purposes, the future income tax reduction is recognized in the accounts in the current year.

(g) Exchange translation

The statements of companies whose accounts are maintained in U.S. dollars have been translated into Canadian dollars substantially as follows: inventories, fixed assets, deferred income taxes and related expenses, at historical rates of exchange; all other assets and liabilities, at exchange rates prevailing at the end of the year; income and expenses (other than those related to assets and liabilities translated at historical rates) at average rates for the year. Translation gains or losses are included in income.

2. **Long term debt**

	1977	1976
Bank term loans	$1,375,400	$1,490,000
Bank term loans*	404,690	463,500
Bank term loans*—U.S. currency	150,000	
Series A debenture	1,969,560	
$7^1/_4$% and 10% notes due up to January, 1979	63,400	181,065
Non-interest bearing note due September 15, 1983*	100,000	100,000
8% debenture due October 2, 1998*	100,000	100,000
	4,163,050	2,334,565
Less portion included in current liabilities	406,842	675,000
	$3,756,208	$1,659,565

*debt of subsidiary companies

The principal amounts remaining to be paid in the next five fiscal years are:

1978	—	$406,842
1979	—	464,917
1980	—	416,333
1981	—	395,606
1982	—	396,385

During the year the company rearranged its bank financing by increasing its operating line of credit from $2.8 million to $3.5 million and by replacing three smaller term loans with a new seven-year term loan. The bank term loans, represented by demand promissory notes (the major portions of which are not expected to be demanded over the next twelve months), bear interest at rates from the prime rate to $2^1/_2$% over the prime rate and have repayment terms extending to March, 1984.

The Series A debenture, issued during the year for $2,000,000, bears interest at the prime rate plus 2% and is repayable in blended monthly amounts of principal and interest over a fifteen-year period.

Specific assignments of accounts receivable and fixed assets and floating charge debentures of the parent company and two subsidiary companies have been assigned as security for the term loans and Series A debenture. In addition to the usual conditions, under the most restrictive covenant the company has agreed to maintain working capital of $600,000.

3. **Fixed assets**

	1977			
	Cost	**Accumulated Depreciation and Amortization**	**Net Total**	Net 1976
Equipment and furniture	$2,706,299	$1,373,137	$1,333,162	$1,385,351
Leasehold improvements	1,439,803	719,480	720,323	758,964
	$4,146,102	$2,092,617	$2,053,485	$2,144,315

4. **Non-current assets**

	1977	1976
Loan to Deferred Profit Sharing Plan (note 7)	$357,942	
Debt issue expense less amortization	57,660	
Other	166,770	$56,633
	$582,372	$56,633

5. **Capital stock**
   (a) Issue of common shares
   During the year 1,000 common shares were issued for a total consideration of $1,250 on the exercise of employee stock options.
   (b) Employee stock option plan
   Under the employee stock option plan, 63,517 unissued common shares of the company are reserved as at October 31,1977.
   During the year, options to purchase 634 shares expired, options to purchase 1,000 shares were exercised and options to purchase 2,000 shares were issued. As at October 31, 1977, 54,000 options were outstanding, 47,000 at $1.25 per share, 5,000 at $1.60 per share and 2,000 at $1.75 per share. These options are exercisable at various dates up to January 2, 1979. Reference is made to note 11(b).
   (c) Other rights to acquire common shares
   (i) As part of a bank loan agreement, the company issued warrants to the bank to purchase 14,400 common shares at $5 per share exercisable on or before January 30, 1978.
   (ii) Preference shares may be converted at any time on a one-for-one basis into common shares.
   (d) Dividend restrictions
   Dividends on the common shares may only be paid with the approval of the bank, within the constraints of the Anti-Inflation Program.
   (e) Earnings per common share
   Fully diluted earnings per common share approximate basic earnings per common share for both 1977 and 1976.

6. **Acquisitions**
   During the year certain of the company's subsidiaries acquired eight medical laboratories for a total consideration of $622,959, of which $272,959 was cash. Of the total purchase price, $63,379 was ascribed to net assets and $559,580 to goodwill.
   In addition, two of the company's subsidiaries sold laboratory assets for a total consideration of $350,000. After deducting expenses and related costs of $84,348 and accounting for the disposal of goodwill of $122,675, a gain of $142,977 was realized.

7. **Loan to Deferred Profit Sharing Plan for Employees**
   During the year the company received approval from Revenue Canada to loan funds to the Deferred Profit Sharing Plan ("Plan") for the company's employees to enable the Plan to purchase shares of the company on behalf of the Plan. While the unallocated shares are not pledged as security against the loan, the trustees of the Plan have agreed that (i) all loans from the company will be paid off before the Plan makes other investments; and (ii) dividends will be waived on shares not allocated to employees. Subject to certain qualifying requirements, all employees of the company are eligible for membership in the Plan.
   The total loan made to the Plan during the year was $590,304 with which the plan purchased 227,040 shares at $2.60 per share. By the year end the loan was reduced to $357,942.

8. **Statutory information**
   The aggregate remuneration of directors and senior officers (as defined in the Ontario Business Corporations Act) was $419,000 in 1977 ($331,000 in 1976).
   In addition, the company made interest free house loans to certain employees, which amounted to $34,500 at October 31, 1977. Each loan is secured by a collateral mortgage.

9. **Commitments**
   Under the premise and equipment leases entered into by the company and its subsidiaries up to October 31, 1977, the company is obliged to make minimum payments of approximately $1,014,000 in 1978, $855,000 in 1979, $536,000 in 1980, $317,000 in 1981, $155,000 in 1982 and $247,000 in total over the period 1983 to 1987.

10. **Contingent liabilities**
   (a) During the year, the Ontario Ministry of Health conducted audits of the company's billings to the Ontario Health Insurance Plan (OHIP) for the period May 1, 1974 to December 31, 1976. As a result of such audits the General Manager of OHIP has claimed certain amounts to be recoverable from the company. The company disagrees with these reassessments and discussions are currently taking place in an effort to resolve the disagreements. The matters at issue do not have a material effect on the reported results for the 1977 fiscal year.
   (b) A subsidiary has guaranteed a bank loan totalling $70,000 in connection with one of its development activities. As primary security for this bank loan assets of the development project have been pledged.
   (c) The company is contingently liable for a lease in a development project for a nine-year period at an annual rental payment of approximately $46,000, of which all but $7,000 per year has been sublet.

11. **Subsequent events**
   (a) In December, 1977 through a series of transactions, a subsidiary acquired a 50% joint venture interest in a New York state based laboratory operation. The transactions included the acquisition of one laboratory for a total consideration of $264,000 and then exchanging the business of this laboratory plus cash of $110,000 for a 50% interest in the joint venture. In addition, the company agreed to provide additional financing to the joint venture of $300,000, $200,000 of which is secured by a debenture and $100,000 is secured by equipment leases. Of the purchase price for the 50% interest in the joint venture $220,000 was ascribed to tangible assets and $154,000 to goodwill.
   (b) Subsequent to the year end, options to purchase 46,900 unissued common shares were exercised. Reference is made to note 5(b).

12. **Anti-Inflation Act**
   Under the federal government's Anti-Inflation Program, presently scheduled to be phased out beginning in April of 1978, the company is subject to mandatory compliance with legislation which controls prices, profit margins, employee compensation and shareholder dividends. Management is of the opinion that the company is in compliance with the requirements of the Anti-Inflation legislation.

8-Year Financial Summary

1970-1977

	Years ended October 31,							
	1977	1976	1975	1974	1973	1972	1971	1970
	(Thousands)							
STATEMENT OF INCOME								
Gross revenues	**22,268**	21,534	20,158	15,753	10,428	7,203	5,335	2,332
Income (loss) before extraordinary items	**1,103**	1,042	1,006	805	667	337	143	(652)
Net income (loss) for the year	**1,103**	1,080	1,006	403	586	624	351	(1,072)
BALANCE SHEET								
Working capital	**3,251**	1,086	1,603	1,229	1,134	687	113	(205)
Fixed assets (net)	**2,053**	2,144	2,139	1,728	977	750	567	574
Other assets (including goodwill)	**4,834**	3,895	3,646	3,618	3,703	3,122	2,749	2,561
Total assets	**13,632**	10,576	11,469	9,769	7,471	6,117	4,353	3,833
Long term debt	**3,756**	1,660	1,702	1,846	1,544	892	1,485	1,682
Shareholders' equity	**6,374**	5,443	5,616	4,621	4,234	3,667	1,944	1,248
SOURCE OF FUNDS (selected items)								
Working capital from operations	**1,378**	1,390	1,321	1,090	819	454	228	(540)
Issue of common shares	**1**	4	6	1	66	1,000	–	–
Issue of long term debt	**2,540**	600	–	425	700	–	–	799
Issue of preference shares	–	–	–	–	–	–	275	–
APPLICATION OF FUNDS (selected items)								
Purchase of fixed assets	**386**	480	854	987	380	297	164	481
Investment in subsidiaries and divisions	**227**	(8)	–	351	335	140	4	460
Dividends on common shares	**156**	167	–	–	–	–	–	–
Dividends on preference shares	**17**	17	17	17	19	22	–	–
Reduction of long term debt	**443**	792	144	204	248	603	203	18
Purchase of shares for cancellation	**–**	1,073	–	–	–	–	–	–
PER COMMON SHARE ($ per share)								
Earnings (loss) before extraordinary items	**.65**	.60	.46	.37	.31	.16	.07	(.35)
Earnings (loss) after extraordinary items	**.65**	.62	.46	.18	.27	.30	.19	(.57)
Number of shares outstanding at end of period (000's)								
Preference	**42**	42	42	42	42	55	55	–
Common	**1,674**	1,673	2,152	2,147	2,146	2,107	1,888	1,877

MDS Health Group Limited

Directors and Officers

Board of Directors

°Dr. W. Anderson
Professor of Pathology, University of Toronto

†*J.W.L. Fordham
Vice-President, Diamond Shamrock Corporation

†A. Grieve
Investment Consultant

°Dr. L. R. Harnick
Chief Radiologist, Toronto Western Hospital

*R. Horner
Investment Consultant

†W. G. Lewitt
President, MDS Health Group Limited

G. S. Mann
President, Unicorp Financial Corporation

R. M. Warren
Chief General Manager,
Toronto Transit Commission

*R. D. Wilson, Q.C.
Partner, Fasken & Calvin

R. H. Yamada
Vice-President, MDS Health Group Limited

†Executive Commitee *Audit Committee
°Medical Advisory Committee

Officers

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Chief Executive Officer

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Vice-President
Organization Development & Personnel

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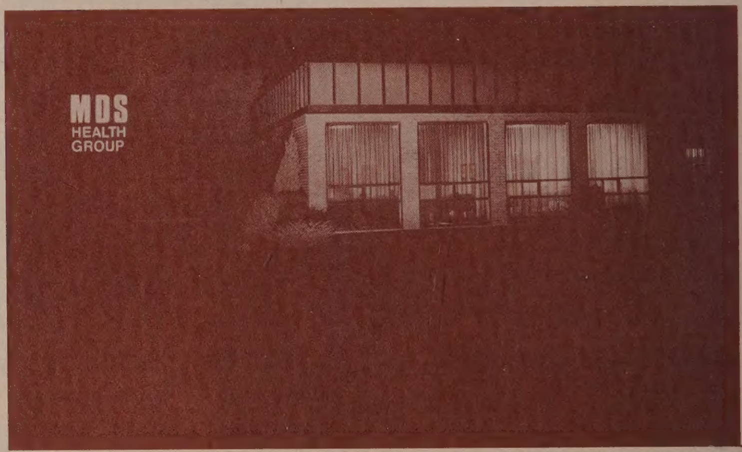
General Manager, MDS Laboratories

E. K. Rygiel
Vice-President
Corporate Development

R. H. Yamada
Vice-President
General Manager, MDS Health Care Services

J. A. Rogers
Secretary-Treasurer
Chief Financial Officer



Head Office
30 Meridian Road, Rexdale, Ontario M9W 4Z9, (416) 675-7661

Transfer Agents & Registrar
Guaranty Trust Company of Canada, Toronto-Montreal

Auditors
Clarkson, Gordon & Co.

Legal Counsel
Fasken & Calvin

Stock Listing
Toronto Stock Exchange, Montreal Stock Exchange, Symbol-MHG

Bankers
Canadian Imperial Bank of Commerce

Annual Meeting

Shareholders are invited to attend the company's ANNUAL AND GENERAL MEETING at 4 p.m., March 2, 1978 in the Manitoba Room of the Royal York Hotel, Toronto, Ontario.

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